

# SENATE BILL REPORT

## SB 6516

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As of January 29, 2010

**Title:** An act relating to plan membership default provisions in the public employees' retirement system, the teachers' retirement system, and the school employees' retirement system.

**Brief Description:** Modifying plan membership default provisions in the public employees' retirement system, the teachers' retirement system, and the school employees' retirement system.

**Sponsors:** Senator Hobbs.

**Brief History:**

**Committee Activity:** Ways & Means: 1/28/10.

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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Erik Sund (786-7454)

**Background:** The Public Employees' Retirement System (PERS) provides benefits for all regularly compensated public employees and appointed officials unless they fall under a specific exemption from membership, such as qualification for another of the state retirement systems. The Teachers' Retirement System provides retirement benefits for certificated instructional staff of public schools. The School Employees' Retirement System (SERS) provides benefits for classified school employees.

PERS, TRS, and SERS Plan 2 are defined benefit plans that provide a retirement allowance based on 2 percent of final average salary for each year of service, and a normal retirement age of 65. Early retirement benefits are available beginning at age 55, with reductions depending on the member's age and years of service. Contributions for the plan vary from year to year with actuarial requirements, are divided equally between employers and employees, and are each paid into the defined benefit pension fund for purposes of supporting the defined benefits at retirement.

PERS, TRS and SERS Plan 3 are hybrid defined benefit and defined contribution retirement plans. Employer contributions support a 1 percent of final average salary benefit for each year of service with a normal retirement age of 65. Early retirement benefits are similar to those offered in Plan 2. Employee contributions are made to an individual defined contribution account. The rate of employee contributions are selected by the employee during

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a period following each term of employment, and are fixed for the duration of the employment relationship. Employee contributions vary between 5 and 15 percent of pay, and there are a variety of investment options available for members, including participation in the same combined investment fund used for the defined benefit plans.

TRS Plan 3 was opened to new members on July 1, 1998, and SERS Plan 3 opened on September 1, 2000. From the dates TRS 3 and SERS 3 were opened until July 1, 2007, all new members of those systems were enrolled in Plan 3. PERS 3 was opened to enrollment in 2002, however PERS 2 remained open to new members. Since July 1, 2007, TRS 2 and SERS 3 have again been offered as enrollment options for new members of those systems. New members of PERS, TRS, and SERS are given a period of 90 days to choose to become a member of Plan 2 or Plan 3. The choice is irrevocable, and once a member chooses a plan it becomes the only plan in that system that the member may participate in. If a member does not choose membership in either Plan 2 or Plan 3, the member becomes a member of Plan 3 by default.

**Summary of Bill:** The default plan for new members of PERS, TRS, and SERS that do not choose a plan within 90 days of becoming employed in an eligible position is changed from Plan 3 to Plan 2.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:** PRO: The Plans 3 were designed to provide additional flexibility to employees that wanted that freedom. When the Plans 3 were created it was envisioned that they would provide the most benefit to employees who enter public employment for a while, and then move on rather than spending their entire career in public service. That may be true for many members of PERS, however it's not generally true for school employees, who tend to spend their whole career in the educational field. Plan 2 is therefore a more appropriate default plan for school employees. Those employees who fail to select a plan are those who are least likely to be actively involved in their retirement planning. They should not be placed in Plan 3, which requires that members take more responsibility for their retirement benefits. This bill will save the state and local governments a significant amount of money over the next 25 years.

**Persons Testifying:** PRO: Don Carlson, Select Committee on Pension Policy; John Kvamme, Washington Association of School Administrators and Association of Washington School Principals; Leslie Main, Washington State School Retirees' Association; Randy Parr, Washington Education Association; Pat Thompson, County and City Employees; David Westberg, Joint Council of Stationary Engineers; Matt Zuvich, Washington Federation of State Employees.